

Tuesday, 26 May 2020

BUY
Maintain

Last price (IDR) 710
Target Price (IDR) 1,200
Upside/Downside +69.0%
Previous Target Price (IDR) 1,250

Stock Statistics

Sector Plantation
Bloomberg Ticker LSIP IJ
No of Shrs (mn) 6,820
Mkt. Cap (IDRbn/USDmn) 4,842/329
Avg. daily T/O (IDRbn/USDmn) 15.7/1.1

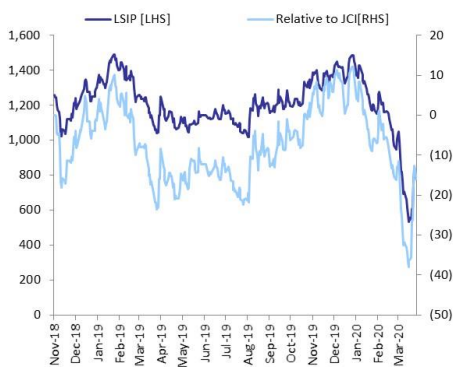
Major shareholders (%)

Salim Ivomas Pratama 59.5
Public 40.5

EPS Consensus (IDR)

	2020F	2021F	2022F
Danareksa	45.7	47.0	40.2
Consensus	49.8	68.4	71.2
Danareksa/Cons	(8.3)	(31.3)	(43.6)

LSIP relative to JCI Index



Source : Bloomberg



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PP London Sumatra (LSIP IJ)

Anemic Volume for 2020

LSIP reported earnings of IDR81.0bn in 1Q20 (+109.8% yoy), but below expectations at 20.8% of our full year forecast and 20.0% of consensus estimates. Revenues reached IDR810.0bn (-12.7% yoy) as CPO sales volume was -30.5% yoy with PK products -30.2% yoy, cancelling out the higher CPO ASP which rose 29.3% yoy and 15.3% qoq to IDR8,437/kg. The result prompts us to adjust our sales volume and inventory estimates, leading to 19.3% lower core net income, with cash down by IDR216.7bn. As such, we arrive at a slightly lower TP of IDR1,200 with our BUY call remains intact.

Lower volume leads to lower-than-expected net income. As we peel further through LSIP's financials, purchases from SIMP fell by an estimated 21.9% yoy and the absence of other major buyers indicates anemic demand. The overall volume fell by 30.5% to 76.0k tons in 1Q20 as production too is lower by -16.0% yoy due to lower nucleus FFB production by -10.2% yoy at 306.8k tons and with -15.3% yoy FFB processed in 1Q20. Earnings of IDR810.0bn in 1Q20 are below expectations at 20.0% of our forecast and 19.8% of the consensus.

The low demand and production cycle has led to the company lowering its CPO production; thus FFB purchases were also lower. Margins improved across the board due to higher ASP, GPM up by +4.1p.p to 18.7% and the net income margin reaching 10.0% +5.8p.p up from 1Q19 levels. LSIP booked IDR86.3bn of FX gains in 1Q20 vs losses of IDR9.0bn in 1Q19 that were neutralized by a non-cash biological asset FV loss of IDR81.7bn in 1Q20. All in all, the IDR81.0bn of earnings is 20.8% and 20.0% of our figures and consensus', while IDR76.5bn of core profit at 21.3% of our figure. Both core and reported earnings are slightly below our figures and the consensus.

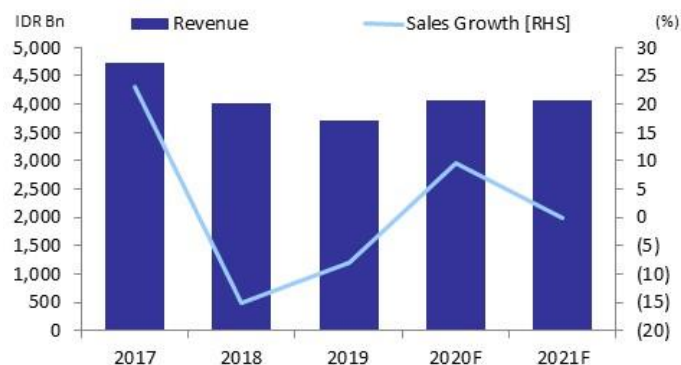
Adjusting down volume, core earnings estimate cut by -19.3%. Post the 1Q20 result we revise down our CPO production assumption by -7.4% to 379.9k tons and our CPO sales volume estimate by -12.1% (-14.5% yoy) with PK sales volume also revised down, by -12.4% (-19.7% yoy). The lower production mainly comes from FFB purchases which we forecast to be lower by -23.4% yoy. In addition, inventory is adjusted up by IDR55bn due to lower sales volume. Lower tax rate 19% from 20% last year due to the new regulation, help cushion lower volume effect. We arrived at a new earnings figures of IDR300.3bn and core profits of IDR290.3bn in 2020, -23.0% and -19.3% lower than our previous estimates, respectively.

Maintain BUY, at slightly lower TP of IDR1,200 As we apply the same multiple for LSIP of -1STD EV/Ha and make adjustments lowering the cash position by IDR216.7bn, our TP is thus lowered by IDR50/share to IDR1,200. We believe the volume weakness will bottom in 2Q20 and improve starting in 3Q20 onwards. LSIP has been punished by the market as the valuation is sub -2STD from the EV/Ha standpoint with CPO prices still higher than last year.

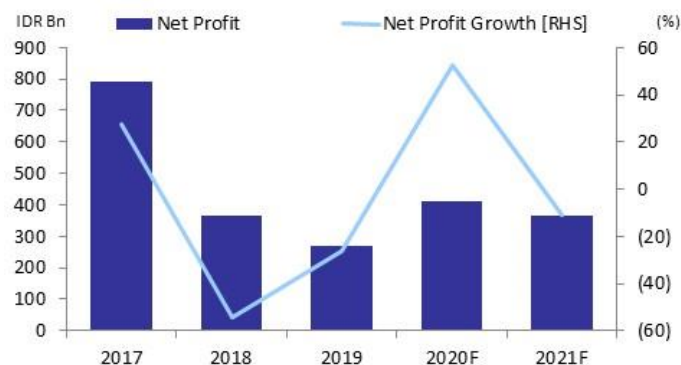
Key Financials

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue (IDRbn)	4,020	3,699	3,631	3,918	3,920
EBITDA (IDRbn)	694	586	710	758	714
EBITDA Growth (%)	(47.6)	(15.7)	21.2	6.9	(5.8)
Net profit (IDRbn)	348	229	311	320	274
EPS (IDR)	51.0	33.6	45.7	47.0	40.2
EPS growth (%)	(54.3)	(34.3)	36.0	2.9	(14.5)
BVPS (IDR)	1,221.2	1,245.7	1,274.9	1,301.9	1,321.6
DPS (IDR)	45.0	19.0	14.9	19.8	21.1
PER (x)	13.9	21.2	15.6	15.1	17.7
PBV (x)	0.6	0.6	0.6	0.5	0.5
Dividend yield (%)	6.3	2.7	2.1	2.8	3.0
EV/EBITDA (x)	4.6	6.3	4.9	4.3	4.3

Source : LSIP, Danareksa Estimates

Exhibit 1. Revenues and Growth


Source: Company, Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth


Source: Company, Danareksa Sekuritas estimates

Exhibit 3. LSIP 1Q20 Result – Initial Figures

LSIP 1Q20 Results	1Q19	4Q19	1Q20	YoY	QoQ	2020E	% DS	2020C	% Cons
Revenue (IDR Bn)	927.9	1,113.3	810.0	-12.7%	-27.2%	4,054.1	20.0%	4,097	19.8%
Gross profit (IDR Bn)	135.9	267.6	151.6	11.6%	-43.3%	794.4	19.1%	832	18.2%
Operating profit (IDR Bn)	38.1	191.7	81.1	112.8%	-57.7%	417.9	19.4%	412	19.7%
Pretax profit (IDR Bn)	50.2	269.9	95.2	89.6%	-64.7%	511.7	18.6%	477	19.9%
Net profit (IDR Bn)	38.6	201.4	81.0	109.8%	-59.8%	389.8	20.8%	404	20.0%
Core profit (IDR Bn)	49.5	93.1	76.5	54.5%	-17.9%	359.8	21.3%		
Tax Rate (%)	24%	25%	15%						
Gross Margin	14.6%	24.0%	18.7%			19.6%		20.3%	
Operating Margin	4.1%	17.2%	10.0%			10.3%		10.1%	
Net Income Margin	4.2%	18.1%	10.0%			9.6%		9.9%	

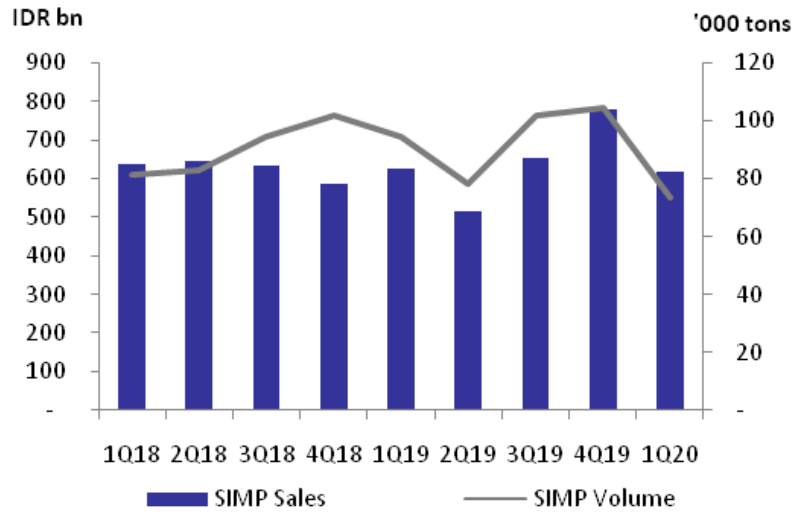
Source: Company, Danareksa Sekuritas

Exhibit 4. LSIP 1Q20 Result

LSIP	2020F			2021			
	In IDR bn	New	Old	%chg	New	Old	%chg
Profit & Loss							
Sales	3,631	4,054	-10.4%	3,918	4,056	-3.4%	
COGS	(2,958)	(3,260)	-9.3%	(3,176)	(3,306)	-3.9%	
Gross profit	673	794	-15.2%	742	750	-1.1%	
Operating profit	310	418	-25.9%	361	363	-0.7%	
Net profit	300	390	-23.0%	331	343	-3.4%	
Core profit	290	360	-19.3%	310	315	-1.6%	
Gross margin	18.5%	19.6%		18.9%	18.5%		
Operating margin	8.5%	10.3%		9.2%	8.9%		
Net margin	8.3%	9.6%		8.5%	8.5%		
CPO Price (MYR/ton)	2,300	2,300	0.0%	2,400	2,400	0.0%	
LSIP's CPO Price (Rp/kg)	8,032	8,032	0.0%	7,386	7,386	0.0%	
LSIP's Rubber Price (Rp/kg)	21,404	21,404	0.0%	22,877	22,877	0.0%	
FFB Production (k tons)	1,452	1,452	0.0%	1,531	1,531	0.0%	
FFB Processed (k tons)	1,659	1,792	-7.4%	1,823	1,914	-4.8%	
CPO Production (k tons)	379.9	410.4	-7.4%	419	440	-4.8%	
CPO Sales Volume (k tons)	357.1	406.3	-12.1%	419	440	-4.8%	
Kernel Sales Volume (k tons)	100.3	114.4	-12.4%	116	122	-4.8%	
Rubber Sales Volume (k tons)	8	8	0.0%	8	8	0.0%	
USD MYR Assumptions	4.3	4.3		4.2	4.2		
USD IDR Assumptions	15,500	15,500		14,200	14,200		

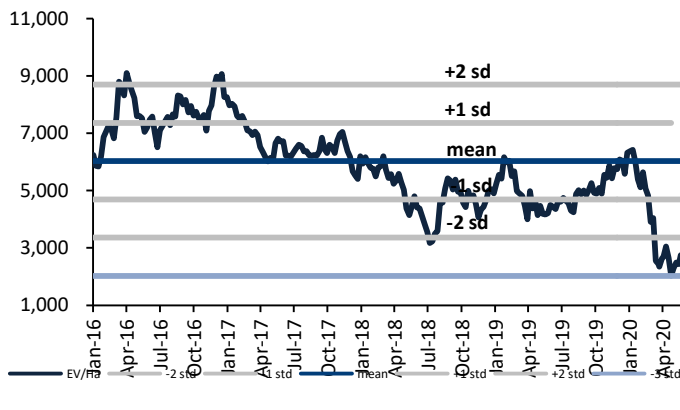
Source: Company, Danareksa Sekuritas

Exhibit 5. SIMP sales volume



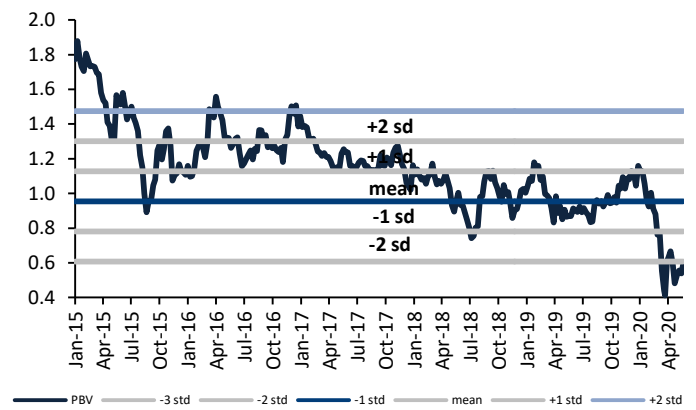
Source: Company, Danareksa Sekuritas

Exhibit 6. EV/ha chart (in USD) Band Chart



Source: Company, Danareksa Sekuritas estimates

Exhibit 7. PBV Band Chart



Source: Company, Danareksa Sekuritas estimates

Exhibit 8. Income Statement

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Revenue	4,020	3,699	3,631	3,918	3,920
COGS	(3,337)	(3,138)	(2,958)	(3,191)	(3,242)
Gross profit	683	562	673	727	678
EBITDA	694	586	710	758	714
Oper. profit	310	201	310	346	288
Interest income	71	67	56	47	51
Interest expense	0	(1)	(2)	(2)	(2)
Forex Gain/(Loss)	31	(17)	0	0	0
Income From Assoc. Co's	7	(14)	(4)	(3)	(3)
Other Income (Expenses)	16	92	21	22	18
Pre-tax profit	434	328	381	409	351
Income tax	(88)	(100)	(70)	(90)	(78)
Minority interest	2	1	1	1	1
Net profit	348	229	311	320	274
Core Net Profit	317	246	311	320	274

Exhibit 9. Balance Sheet

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	1,663	1,132	1,358	1,548	1,775
Receivables	152	469	290	313	313
Inventory	489	342	405	437	422
Other Curr. Asset	140	250	249	251	251
Fixed assets - Net	4,009	4,057	4,256	4,347	4,402
Other non-curr.asset	3,584	3,976	3,827	3,687	3,572
Total asset	10,037	10,225	10,386	10,582	10,735
ST Debt	0	0	0	0	0
Payables	312	319	282	292	310
Other Curr. Liabilities	213	147	147	149	149
Long Term Debt	0	0	0	0	0
Other LT. Liabilities	1,180	1,260	1,260	1,260	1,260
Total Liabilities	1,705	1,727	1,688	1,701	1,719
Shareholder's Funds	8,328	8,496	8,695	8,879	9,014
Minority interests	4	3	3	3	3
Total Equity & Liabilities	10,037	10,225	10,386	10,582	10,735

Exhibit 10. Cash Flow

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Net income	348	229	311	320	274
Depreciation and Amort.	385	385	400	413	426
Change in Working Capital	(118)	(174)	73	(40)	31
Other Oper. Cash Flow	(7)	(137)	(63)	(43)	(45)
Operating Cash Flow	608	302	721	650	686
Capex	(320)	(461)	(437)	(363)	(358)
Others Inv. Cash Flow	(11)	(309)	57	42	41
Investing Cash Flow	(331)	(771)	(380)	(322)	(317)
Net change in debt	0	0	0	0	0
New Capital	0	0	0	0	0
Dividend payment	(307)	(130)	(102)	(135)	(144)
Other Fin. Cash Flow	77	41	(2)	(2)	(2)
Financing Cash Flow	(230)	(88)	(104)	(137)	(146)
Net Change in Cash	47	(557)	237	191	223
Cash - begin of the year	1,633	1,663	1,132	1,358	1,548
Cash - end of the year	1,663	1,132	1,358	1,548	1,775

Exhibit 11. Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Growth (%)					
Sales	(15.2)	(8.0)	(1.8)	7.9	0.1
EBITDA	(47.6)	(15.7)	21.2	6.9	(5.8)
Operating profit	(67.0)	(35.1)	54.1	11.5	(16.8)
Net profit	(54.3)	(34.3)	36.0	2.9	(14.5)
Profitability (%)					
Gross margin	17.0	15.2	18.5	18.6	17.3
EBITDA margin	17.3	15.8	19.5	19.4	18.2
Operating margin	7.7	5.4	8.5	8.8	7.3
Net margin	8.7	6.2	8.6	8.2	7.0
ROAA	3.5	2.3	3.0	3.1	2.6
ROAE	4.2	2.7	3.6	3.6	3.1
Leverage					
Net Gearing (x)	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)
Interest Coverage (x)	729.2	336.7	154.9	172.8	143.8

Source : LSIP, Danareksa Estimates

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